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Article:

Corporate Governance – Will it deliver value than fluff for India?

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Lack of shareholder activism amongst domestic institutional investors, abusive related party transactions, poor quality of board discussions, lack of independence of boards, weak disclosures and soft enforcement – these have been listed internationally as key lacunae in Indian Corporate Governance. Apart from the many FIIs and international corporate governance commentators over the years, the IMF has also pointed out similar gaps in recent months. Yet, the markets do not seem to punish Indian corporates or for that matter any of those in emerging markets that suffer from similar weaknesses. On the contrary, there is a shift of primary and secondary equity markets towards non-OECD countries, as brought out in a brilliant study by Mats Isaksson and Serdar Celik. This shift from 2006 onwards is especially to China which has overtaken the United States as the largest IPO market in 2010. This, against a background of weak corporate governance scores assigned for India and China in an Asian Corporate Governance Association – CLSA Asia-Pacific Markets study in 2012. The scores for 2012 place China at 9th place amongst 11 Asian economies with a score of 45% and India at 7 with a score of 51%. The scores are against a global bench mark of 80% to which the closest in Asia is Singapore with a score of 69%.

It is increasingly becoming evident that the corporate governance discourse originating in the UK got inspired by assertions and assumptions that belie reality. In the process, the much hoped for “corporate governance premium” has remained unsubstantiated both at the country as well as the company levels and the markets have hardly disciplined anyone. First, among several reasons, is that the popular standards are derived from the normative mechanisms associated with the widely-held corporation which needed to fix the problem of the separation of ownership from control – the classic agency issue. On the other hand, such widely-held companies are an exception in most markets that are dominated by inter-generational business families, first generation entrepreneurs and State-owned enterprises holding significant stock and control in their firms and allowing limited float in the market. Second, there has been undue attention to the boards and shareholder rights in the codes and standards that demand staid apparent measures that may not lead to value-enhancing outcome. Thus, several popular corporate governance mechanisms have not withstood research scrutiny unambiguously for their effectiveness in performance enhancement, risk mitigation and overall shareholder returns.

Third, there has been insufficient effort to integrate corporate governance criteria into financing decisions by providers of finance. In fact, the providers of finance have been at the centre of market failure in rewarding and punishing corporates based on corporate governance. With the result, while many seem to demand good corporate governance standards from their potential investees as a socially hygienic act, their decisions are often on the basis of "promise of profit" with corporate governance as insignificant collateral. Fourth, the profile of investing industry has changed dramatically in recent years, with the sovereign wealth funds taking the top slot amongst the emerging markets followed by insurance companies, mutual funds, pension funds, securities companies, private equity and hedge funds. Most of these investors have increasingly short-term targets that assign insignificant value for corporate governance standards. The size of patient capital appears to be progressively shrinking in equity markets. Perhaps, this signals the short-comings of fiduciary capitalism that one hoped would impact markets positively.

Fifth, the corporate governance standards practiced by most of these institutional investors have been not merely opaque but bestowed with regulatory arbitrage opportunities, if not regulatory forbearance. So, they appear to take the role of standard setters for their potential markets but not necessarily followers of the spirit of corporate governance themselves. It is indeed the poor performance of some of these (such as the equity weighed funds) that have driven retail investors out of many markets in favour of relatively dormant and safer assets. Sixth, the securities regulators in many emerging markets straddle the fence between the populist "comply or explain" and the hard-nosed "comply or else". Their dilemma gets aggravated in the context of the pulls for achieving greater depth in financial markets and developing capital markets with a liberalist stance. The regulatory ambivalence often gets exacerbated with the hope that the self-regulatory organizations i.e. the stock exchanges and professional bodies should be first-enforces of market discipline or the patrol-police. Seventh, the policy environment within which corporate governance can thrive requires reasonably sound institutions including those that assure rule of law, justice and fairness. Where market institutions and the government are weak or captured (or both), no degree of good standards would make corporate governance a competitive proposition for the seekers of finance.

The argument here is indeed not against good corporate governance as such nor to take away the credit due to SEBI for its continued and creditable work. It is against the pedestrian and symbolic approach of all players especially the providers of finance who have indeed failed the corporate governance movement till now. A deeper insight and a national policy are required connecting up the missing links and establishing a framework that truly promotes efficiency, effectiveness and entrepreneurship - amongst all forms of legal entities. Listed or unlisted, providers of finance or seekers of equity or debt or the intermediaries. The need is imminent going by a study of the McKinsey Global Institute that estimates a shortage of USD 10.2 trillion of equity during the next decade among companies in the emerging markets. As the study implies, it is imperative that there are substantive improvements in the intermediation between individual savings and corporate needs to be able to reduce these gaps. Or to put it crudely, make people gain confidence in markets than in the underside of mattresses.

**Y.R.K.Reddy, PhD, an International Advisor and Speaker in corporate governance policy and capacity whose professional work spans 40 countries and international bodies, was a distinguished Chair Professor of Strategic Management. He is contributing, as an invited expert, to the high-level meets of OECD-Paris in reviewing afresh the Principles of Corporate Governance due to be issued in 2014. Contact: yrk@academyofcg.org*

Snapshot - Recent Activity

Inaugural Session of the ACG-SCOPE`s XI Programme on Corporate Governance, 9th October 2014. Left to Right: Dr.Y.R.K.Reddy Lead Resource Person, Dr.U.B.Choubey, DG, SCOPE; Mr.Rawat, Secretary, DPE, Government of India;Mr.C.S.Verma, Chairman SAIL & SCOPE; Mr.Baris Dincer, Resource Person.

Group Photo of the ACG-SCOPE`s XI Programme on Corporate Governance, 9th-10th October, 2014, New Delhi

Dr.Y.R.K.Reddy at Mishra Dhatu Nigam Ltd., to deliver a talk on Ethics, Professionalism and Corporate Governance, 31st October, 2013.

Dr.Y.R.K.Reddy at NMDC Ltd., to deliver the valedictory address of the Vigilance Awareness Week, 1st November, 2013.

PHOTO GALLERY- RECENT MONTHS

Extracts from: SADC-DFRC Newsletter, Issue6, June 2013.

Training on Corporate Governance – Director Skills: 23rd - 26th April 2013

(L to R): Prof Y.R.K Reddy (ACG), Dr. Lassaad Lachaal (ADI), Mr Martin Inkumbi (DBN), Mr. Julius Mukoji (TIB) and Mr. Stuart Kufeni (SADC-DFRC) during the closing ceremony.

The SADC Development Finance Resource Centre in collaboration with the African Development Institute (ADI) of the African Development Bank (ADB) held a training programme on Corporate Governance – Director Skill in Windhoek, Namibia.

The purpose of the programme was to raise awareness of the concept, practice and relevance of good corporate governance in the context of development finance institutions and the challenges they face within the African landscape. The programme also provided the opportunity for serving directors and board members to improve their skills in the boardroom through a practical and interactive approach that involved case studies, group work and discussions, as well as the prospect of sharing experiences with directors on boards of development finance institutions from African countries. The workshop was facilitated by Professor YRK Reddy, an international corporate governance consultant.

The programme was attended by 26 participants from 22 Development Finance Institutions and 9 countries across the SADC region. Countries represented were Botswana, Lesotho, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zimbabwe. Prof. YRK Reddy of Academy of Corporate Governance in Hyderabad, India and Mr Edward Kabwe, Corporate Governance and financial consultant from Zambia resourced the programme.

Participants at the Corporate Governance – Director Skills, Windhoek Country Club Hotel

Mr. Stuart Kufeni, Chief Executive Officer, SADC - DFRC welcomed the delegates, and Dr. Lassaad Lachaal, the Chief Training Economist at the African Development Institute (ADI) officially opened the workshop. Mr. Martin Inkumbi, acting Chief Executive Officer for the Development Bank of Namibia officially closed the workshop and presented certificates. Mr. Inkumbi applauded the two institutions (DFRC and ADI) for a job well done and encouraged delegates to use the knowledge they have acquired from the training as soon as they are back in their offices to benefit their institutions.

Inaugural Session of the ACG-SCOPE`s X Programme on Corporate Governance.
Left to Right: Dr.U.B.Choubey, DG, SCOPE; Mr.Rawat, Secretary, DPE,
Government of India; Dr. Y.R.K Reddy & Ms.Angela Gillibrand – Resource Persons;
Mr.Pavadia, Joint Secretary, DPE.

Dr.Y.R.K.Reddy at the CEO Colloquium of SADC-DFRC DFI Network as Advisor
and Facilitator -. 14^{th} – 15^{th} March 2013, Johannesburg,

Dr.Y.R.K.Reddy addressing the CEO Colloquium of SADC-DFRC DFI Network as Advisor and Facilitator -. 14th – 15th March 2013, Johannesburg,

Y.R.K.Reddy, lead facilitator ,Lassaad Lachaal, African Development Institute, and Martin Inkumbi, DBN at the Corporate Governance Programme of 23- 26, April, 2013 at Windhoek, Namibia

Review - 2013.

1. ACG–SCOPE's ***X Programme on Corporate Governance for CEOs and Directors***, with Founder Trustee and Ms. Angela Gillibrand as lead facilitators, at SCOPE Convention Centre, New Delhi, 21-22nd February, 2013.

2. Design and facilitation by Founder & President of the First CEO Colloquium: ***Policy Environment, Stakeholder Expectations and DFI Mandate, The Central Role of the CEO***, for SADC-DFRC, 13th-15th March, 2013, Johannesburg.

3. Facilitation by Founder & President in the African Development Bank Institute funded programme of ***SADC-DFRC on Corporate Governance for Directors***, Windhoek, 23rd-26th 2013.

4. ***Corporate Excellence Award (CSR)*** offered by Institute of Public Enterprises to ACG, 29, June, 2013.

5. ACG–SCOPE's ***XI Programme on Corporate Governance for CEOs and Directors***, with Founder & President and Mr Baris Dincer as lead facilitators, at SCOPE Convention Centre, New Delhi, 9-10th October, 2013.

6. Participation by Founder & President, as an invited expert, in the ***High-level meeting of the BIAC with OECD`s Corporate Governance Task Force*** in the consultative process for review of the Corporate Governance Principles, Paris, 12th November, 2013.

7. Lead article: ***Leadership for Corporate Governance – An Analytical Perspective***, for Special Issue, Kaleidoscope, Vol.33, No.4 & 5 Sept- Oct. 2013.

8. Address by Founder & President to Senior Management and Directors of Mishra Dhatu Nigam Ltd, on ***Ethics, Professionalism and Corporate Governance***, in the Context of Vigilance Awareness Week, 29th October,2013.

9. Valedictory address on ***Role of the Vigilance Function in Corporate Governance***, to Senior Management and Directors of NMDC Ltd, in the context of Vigilance Awareness Week, 1st Nov.2013.

10. ***Financial Crises and Trust – Emerging Markets Perspective*** by Founder & President, Seven Pillars Institute, Moral Cents, Vol, 2, No.2, Summer / Fall 2013.

11. Assistance to SCOPE in conceptualisation and design of a ***Strategic Repositioning Programme for State-Level Public Enterprises*** proposed in collaboration with DPE, Government of India.

12. A ***Summary Note on Suggested Strategic Initiatives*** at the request of SCOPE arising from the deliberations with the stakeholders and participants of the programmes on Corporate Governance.